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(1868-1890)

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THE HISTORY OF JAPANESE PAPER CURRENCY

(1868-1890)

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THE HISTORY OF JAPANESE PAPER CURRENCY.[1]

Introduction

According to historical records, the first paper money of Japan was issued as early as 1335 (Kembun Period); but particulars of the issue and characteristics of the notes are entirely unknown to us. It is generally believed, however, that this paper was not used in any considerable amounts.[2] Even the Tokugawa government, during its long régime, never put into circulation a government issue. Only at the close of its power, in 1867, did it sanction a paper money for the newly opened port of Hyogo; but this was withdrawn as soon as authorized. Hence, the paper currency issued by the government for the purpose of universal circulation throughout the Empire, began with the restoration in 1868.[3] Governmental currency being thus a new institution and its establishment occurring in the midst of internal political confusion, there were indescribable difficulties in the way of carrying through this financial measure. But notwithstanding these difficulties, the financiers and statesmen of the time

[1] It has not been possible for Mr. Takaki to revise his manuscript or to correct the proof of his study. The monograph is accordingly printed in the form in which it was presented to, and accepted by the Board of University Studies of the Johns Hopkins University for the degree of Doctor of Philosophy, in June, 1895.—Editors.

[2] Transactions of the Asiatic Society of Japan, vol. xx, supplement, part I, p. 168.

[3] Issues of paper money by private persons were, of course, made in the shape of bank notes, but they had a circulation mainly in the large centres of trade. Since the period of Kwambun (1661-1673), there existed another paper money issued by the Daimyos, but it circulated only within the feudal territorial limits. See Count Matsukata's Report of 1890.

by their integrity and honesty were able to establish a solid basis for the currency system and to complete the liquidation of all the inconvertible paper notes before two decades had elapsed. To-day Japan, so far as her financial system is concerned, stands among the most advanced nations of the world.[4] It is the purpose of this monograph to trace the genesis, development and management of the Japanese paper currency, from the restoration of the imperial power in 1868 down to the establishment of constitutional government in 1890.

[4] See the address of Mr. K. Watanabe, the Japanese Minister of State for Finance, at the second session of the Imperial Diet.

CHAPTER I

Genesis of Japanese Paper Currency

Before tracing the development of the paper currency system of Japan, in order that one may thoroughly understand the forces which compelled the government to issue the paper money, it is necessary to consider briefly, the condition of the country at the time when the Imperial power was restored and the present government was organized.

In the 12th month of Kieo (1868) the Imperial proclamation was made that His Majesty, the Japanese Emperor, dismissed Yoshinobu Tokugawa, at the request of the latter, from the office of Shogun.[5] Thus, the Shogun ostensibly returned the ruling power which had been exercised by his family for more than two hundred and fifty years, to the hands of the Emperor who now became the sole ruler of the country. But this surrender of the Shogun was merely nominal, for although the sovereign power was formally transferred, the actual power over dominion and subjects remained in the hands of the feudal nobles who still continued to exercise governmental powers within their own territorial limits. As it was impossible, however, for the Emperor to "fulfil his high office" unless he possessed dominion and subjects, he sent an envoy to the Ex-Shogun and asked him to return such part of his revenue as had been allotted to him only as Shogun.[6] This proposition was refused by Yoshinobu who, however, signified his readiness to hand over to the Emperor a yearly income of a thousand *kokus*[7] and to continue the former allowance of one hundred

[5] Translation of the proclamation is given in American Executive Document, Diplomatic Correspondence, 1868-1869, p. 623.
[6] Mei-Ji-Shi-Yo, vol. i., p. 15.
[7] One koku was about $5.00 in value.

and fifty thousand *kokus* to the Imperial Court. "He further declared that he himself was ready to submit to the orders of the Emperor, but the *Daimyos,* Aidz and Kuwana, resisted his wishes; lest there should be some violence committed by them, he would go to Osaka, dismiss them into their respective provinces and then return to Kyoto to await there the direction of the Imperial Court."[8] But a few days after this, when the envoy was sent to invite him to return to Kyoto as promised, the surprising intelligence came that Aidz and Kuwana, forming the van guard of Yoshinobu's army, had marched towards Kyoto, and that this advance section had attacked the Imperial guard at Toba and Fushimi. The rebels were repulsed and retreated to Osaka and thence to the northeastern provinces by sea. This treacherous conduct of the Ex-Shogun caused the Emperor to declare war against Tokugawa and his adherents, and to appoint Prince Arisugawa as the commander-in-chief of the suppressing forces. Thus, the civil war which revolutionized Japan was begun.

In this din of war and political confusion, the new government began its administration. It was a critical period for the nation. Old institutions were up-rooted; but new institutions were not yet fully established to take the place of the old. The Imperial forces had gained a victory in the single battle of Toba and Fushimi, yet almost all the *Daimyos* stationed east of the Hakone Mountains supported the Ex-Shogun, and resisted the Imperial army. The attitude of the *Daimyos,* who were in a state of alienation and insubordination, was yet a matter of uncertainty. Men's minds were unsettled and public business was in a state of confusion. "The great work of restoring the ancient constitution," says Mr. Okubo in his famous memorial, "is only half accomplished; nay it may be said that it has only commenced."[9] And although every step of the reform under-

[8] American Executive Diplomatic Correspondence, 1868-1869, p. 662.
[9] Mr. Okubo's Memorial, dated Jan. 25, 1868.

taken and every measure adopted demanded constant outlay by the government, yet no means were available whereby this enormous expenditure might be met. How far the financial embarrassment of the government extended can be seen from the letter of the Treasury Bureau to the commander-in-chief of the Imperial army, who asked for a further supply of provisions. It says: "Although we acknowledge that the military funds are, at this crisis of the nation, of the most pressing need, yet, as has been said before, the Treasury Bureau is at present an empty bureau; . . . we have not means sufficient to meet even the ordinary expenses of the Bureau . . ."[10] Mr. Mioka (now Viscount Yuri) describing the financial condition of the government at that time says: "A large army was in the field engaged in suppressing the rebellion but the government had no supplies to send them; every road brought in wounded officers and dying soldiers, but no means to take care of them existed; messenger after messenger from the military headquarters came with urgent pleas for re-enforcements, but the government had to send them back discouraged. The embarrassment of the government was beyond description."[11]

Examining the statistics of government expenditure, we find that the extraordinary disbursement for that year alone reached the enormous figure of 25,000,000 *yen*, while the whole of the government revenue from ordinary sources amounted to no more than 3,600,000 *yen*.[12]

The question which demanded immediate solution was "How should the government meet this enormous expenditure with an empty Treasury?" Many plans were suggested, but most of them were theoretical and not applicable to the situation. As the first step towards the solution of the problem, the government issued an Imperial decree three days after the declaration of the war, that "all the Toku-

[10] Mei-Ji-Sei-Shi, vol. i, p. 109.
[11] Quoted in Mei-Ji-Sei-Shi, vol. i., p. 114.
[12] General Review of Financial Policy during Thirteen Years, p. 9.

gawa domains should hereafter be under the direct control of the Imperial power."[13] This was theoretically a great advance towards acquiring the sovereign power of government, but it did not afford any pecuniary aid towards the formation of a new government, since it was practically impossible for the administration to confiscate all the domains without putting itself in danger of creating riots at a time when the empire was in an unsettled condition. Even had it been possible to collect all arrears, the whole would not have sufficed to meet even ordinary expenses. As has been said before, the territorial nobility still continued to exercise the power of government, making it impossible for the government to obtain from them more than an annual contribution of about 700,000 *yen* for military purposes. The government was obliged therefore to take another step, namely to contract a domestic loan. On May 5, 1868, the Emperor issued a decree stating: "The government has to spend much and receives little for its Treasury . . . At a time of national crisis, it is the duty of the subjects of the Emperor to serve the country according to their ability and occupation; those who have boldness and courage, by joining the Imperial army; those who have means, by contributing to the military fund. Thus each and every one can have opportunity of fulfilling the duty which has been assigned to him."[14] Again in the official letter of the Treasury Bureau to Mr. Matsukata (now Count), the Governor of Hida Prefecture, it is stated that "the government has been suffering from financial difficulties and can not meet the pressing need of the Imperial army in the field. We sincerely wish, therefore, that your good office, bearing this embarrassment in mind, would exercise its best effort in raising a loan immediately in your Prefecture."[15]

But this measure was intended to afford only temporary relief, in meeting an urgent emergency. Owing to the lack

[13] Mei-Ji-Sei-Shi, vol. i, p. 109.
[14] Mei-Ji-Sei-Shi, vol. i, p. 119.
[15] Mei-Ji-Sei-Shi, vol. i, p. 109.

of confidence in the new government, together with the fact that the Tokugawa government had employed a similar measure before, the people were indifferent towards the loan. In the unsettled condition of affairs, many rich merchants hid their wealth and tried to escape from the subscription. Although this action seems to have been unpatriotic and even disloyal to the country, yet considering the condition of the time, it was not at all surprising. Count Okuma, in his "Reminiscence," gives an instance illustrating how hard it was for the officials to raise money for government use. He says, "When the government wanted to pay for an American vessel, the 'Stonewall,' which had been purchased by the Old Régime, I was appointed as the government commissioner for the settlement of the matter. But as there was no money in the treasury for this purpose, I went to Osaka and even with the aid of violent threats on the part of the local authority, I could raise only 250,000 *yen*."[16] This was the effect of the measure in the wealthy city of Osaka. We can judge of the difficulty of raising the remainder of the desired loan in other cities and provinces. There was an instance in which the government was forced to borrow 100,000 *yen* for ten days at one and half per cent interest. Thus the amount raised in every possible way was insufficient to meet the constantly increasing outlay. "The loans obtained," says Count Okuma, "together with the money handed over by the Shogunate and the fines or gifts of the *Daimyos* amounted barely to 5,380,000 *yen*, or a total, from ordinary and extraordinary sources, of about 9,040,000 *yen*."[17] Since the expenditures reached 25,000,000 *yen*, there was left a deficit of 15,900,000 *yen*. The financial difficulty of the government had reached its climax, and the government proceeded to adopt more permanent measures for the salvation of the country from financial peril, namely to resort to the issue of a paper currency.

[16] Count Okuma's "Reminiscence," No. 123 (as published in the Ho-Chi-Shim-Bun.)
[17] Count Okuma's "Review," p. 9.

As has been stated in the foregoing pages, the financial condition of the government had become so critical that the effect of further delay would have been serious. At this time the plan of issuing paper money was proposed as a means of saving the government from its financial peril. The originator of the scheme was Mr. Hachiro Mioka,[18] a retainer of Yechizen and a councillor of state. He was known as an able financier and had won the confidence of such older statesmen as Messrs. Kido and Okubo. The plan was similar to the "Land Bank" system of England and the "Paper Bank" system of Rhode Island. It was in brief to issue paper notes, 48,973,000 *yen* upon the cultivated land of the Empire for security, to be circulated for thirteen years.

In regard to the issue, Mr. Mioka said, "For some time I had had a strong conviction that if we would issue a paper money to be circulated throughout the Empire, thus expanding the medium of exchange, we could lay a sure basis for the commercial and industrial prosperity of the country. . . . For, although prior to the issue of paper money in my province (Yechizen), we suffered from poverty and hard times, yet from the time the new medium of exchange (paper notes) was put into circulation, industry and trade had sprung up and the provinces which hitherto had no coin, had now become a wealthy country with 350,000 *rio* in coin. Having this in view, I sought to bring my belief into realization and explained my plan to all the statesmen of the time. But owing partly to the seemingly radical character of the scheme, and partly to the ignorance of most public men in respect to the matter, there was much opposition to the plan which I thought to be the only means of saving the country. As it was impossible to settle the question at once, the government called an assembly of councillors of state to consider the question. Thus all, together with the members of the Imperial Household, came before the thorne on

[18] Now Viscount Yuri, a member of the House of Peers.

January 29, 1868. The method of proceedings (this being before the western parliamentary rules were known to us) was very strange; each member present was to speak on the question in turn. When my turn came, I proposed and discussed at some length the necessity and benefit of the issue of a paper money. My statements created great excitement among those assembled, and an excited discussion of the problem, pro and con, ensued. The final result of the debate was the order that my proposition be accepted, and I was authorized to make preparation for the issue of paper money at once."[19] Thus, in the intercarlary month (from the twenty-second of May to the nineteenth of June), the *Dai-Jo-Kwan* (Central Government) issued the following proclamation:

"To create a sure basis for the prosperity of the realm on the occasion of the reformation of the Imperial government, after mature consideration, the issue of paper money has been decreed; and according to His Majesty's orders this paper money shall pass current in the whole empire from the present year Tatż to the next year Tatż, i. e. for thirteen years, that by it the poverty which reigns everywhere in the country may be alleviated. The rules to be observed are mentioned below:

"The day from which it shall be put into circulation shall be published by the proper authorities to all people, even down to the lowest class.

"As the introduction of paper money has been decreed, all *Daimyos* shall be able to obtain loans according to their incomes, so that for every ten thousand *kokus* they may get ten thousand *rios*. They must submit their wishes with regard to this to the proper authorities.

"With regard to the re-payment they will be obliged to pay every year, for thirteen years, a tenth of the sum lent; payment to be made in notes, so that at the end of the next Tatż, the re-payments will have been effected.

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[19] Mr. Mioka's address on the "Issue of the paper money," quoted in Mei-Ji-Sei-Shi, vol. i, pp. 112-118.

"The princes shall bear in mind that according to the intentions of the Emperor, through the paper money lent to them, a sure basis will be created for the prosperity of the country. They shall use it, therefore, to assist industry as much as possible, and to benefit their provinces. The government of the princes cannot be allowed to use their notes for unlawful purposes.

"To the merchants of Kyoto and of Setz (Osaka) and of the neighboring rural districts, who desire to contract such loans, notes shall be given in accordance with the amount of business they transact, after they have expressed their wishes to the officers issuing the notes.

"To the inhabitants of the towns and villages of the Saibansho districts [20] in the whole country, and in the territories of the province at their demand, after their fortune has been assessed, loans shall be given for the carrying on of their business. With regard to the repayment, they shall pay every year a convenient part of the sum with the interest.

"Everywhere, in the whole country, the same principles shall be observed as with the merchants at Kyoto and Osaka.

"Such notes as are annually repaid shall be destroyed in the *Kaikeikyoku*.[21]

"From the money lent this year between the first and seventh month exclusive, ten per cent shall be returned at the end of this year; from the money lent between the seventh and twelfth month, only five per cent.

"In this manner, according to the will and decision of the Emperor, a substitute shall be created for the waiting coins. Nobody, therefore, ought to censure this measure. As, however, the loans are contracted in notes and are to be repaid in notes, no exchange (against coin) shall take place." [22]

According to the above text, the sole object of issuing

[20] Judicial District.
[21] Bureau for Finance.
[22] Translation is given in American Executive Documents. Diplomatic Correspondence, vol. i, 1868-1869, pp. 795-6.

the paper money appears to have been to create "a sure basis for the prosperity of the country." But if this were the only object, it is difficult to understand why the measure was adopted just at that time, for the government knew that the over-issue of the clan notes had already caused their value to fall to the lowest limit, that the people would refuse the circulation of paper note of any kind, and that, consequently, it was impossible for the government to lay a sure basis for the prosperity of the country by introducing a medium of exchange which the people would dislike and refuse to circulate. Hence there must have been some other impulse in consequence of which the government was driven to adopt the measure at this unfavorable time; namely, the insufficiency of existing revenues to meet the expenditure of the government. This is clear from the facts mentioned in the foregoing pages.

We must not, however, consider that the object stated in the text was a mere pretense of the government. It was true that as the capital of the country was not sufficient for the growing industry, it seemed desirable in some way to increase the usefulness of that capital in order to extend national industry. Moreover, the familiar maxim that 'when a people becomes rich, the King thereof will also become rich,' still remained in the minds of the officials of the Empire. Under these influences, the government sought to assist the people who were not able to extend their business on account of scarcity of capital. Quoting the words of Mr. Mioka, the originator of the scheme, "During the Keio period, the Tokugawa government following the Western system, had issued paper notes."[28] I thought then that such notes would never benefit the country but rather hurt its industries; the more paper notes issued, the poorer country Japan would become, for the object of the Tokugawa government in this respect was the profit of the treasury only, not the benefit of the people. This is contrary to the

[28] Cf., p. 1, above.

true end of sound currency and the principles of political economy. But our object was different from this; it was to aid the people who had no means of carrying on industry." [24]

Soon after the proclamation was promulgated, the government established the Bureau of Trade and Industry and took measures for promoting industry and commerce.[25] It is also true that in accordance with the clause in the text, the government loaned the notes to merchants and farmers, although there is no method of knowing how much these classes received. In the statistics of the "Government Revenue" for the second fiscal term (Jan. 1869-Sept. 1869) we find an item, "Repayment of Industrial Loan" which amounted (for that year) to 4,496,009,000 *yen*. Thus, it is evident that the object of the government was twofold: To defray the expenses of the government and to increase the national capital. "There was moreover," says Count Okuma in his "Review," "a deficiency of capital in the country, and as only a very short time had elapsed since the Restoration, it would have been impossible for the government, during the first five or six years of its existence, to raise sufficient funds by way of internal loans to meet its expenditures. Under these circumstances, a resort to the issue of a paper currency became absolutely unavoidable." [26]

[24] Mr. Mioka's address quoted in Mei-Ji-Sei-Shi, vol. i, p. 113.
[25] Mei-Ji-Sei-Shi, vol. i, p. 121.
[26] Okuma's "Review," p. 8. Afterwards five other kinds of notes were issued and circulated, the genesis and characteristics of which will be considered in Chapter III.

CHAPTER II

Circulation of the Paper Currency

The proclamation was issued in the expectation that the notes might be circulated as soon as prepared. Mr. Mioka and his subordinates were busily engaged in the preparation of the issue. In summing up the work and the difficulties, these officials encountered, Mr. Mioka says: "Since the day of my appointment to this important office, I pledged myself to labor for this great project of the government as hard as my strength would allow. Yet an unexpected difficulty was the increase both in the number and influence of the opponents of the measure. They employed many assassins and tried to take my life, hoping thus to check the completion of the issue. I did not care so much for my life as for the plans of the government, for if I fell under the dagger of an assassin, the work we had undertaken might never be accomplished. On the other hand, the messengers from the battle field came as often as three times a day, and brought urgent pleas for reinforcements. In this dangerous situation we were placed and we worked day and night, until most of the required amount was prepared."[1]

On May 9, 1869, the notification of the central government was issued stating, "The paper currency which has been decreed, will be circulated from May 15, 1868."[2] When the time fixed for the issue of the paper money approached its opponents increased their efforts, and finally compelled the government to postpone the issue. These opponents were not among the traders and the merchant class, but were found among the *Daimyos* and *Samvrai* classes. The chief cause of this opposition appears to have

[1] Mei-Ji-Sei-Shi, vol. i, p. 116. [2] Kempo-Rui-Hen, vol. ix, p. 26.

been the interest of these classes who were benefited by the circulation of the "clan-notes" and whose interests might be affected by the circulation of the new paper money. To understand the situation, we again refer to the words of Mr. Mioka himself. He says: "In order to begin to circulate the paper money from the date fixed by the decree, we had made all arrangements for this purpose. It was not an easy task to make such preparation at the time when we had no telegraph system and no such rapid distribution of mail as we have now. When all the preparations were made and it was our intention to issue the notes on the next day, to our great surprise and disappointment, an order of postponement reached us. Indeed, this was a very vexing question, for there was no way to stop the circulation because we had already sent the notes out to the principal cities and towns ordering the local authorities to distribute them. Even if we sent out messengers to these places, they could not reach the destination before the time assigned for the issue. I explained this difficulty to the authorities and they did not know what could be done. The question was how to stop the circulation. I told them there was no way to stop the circulation of the notes which were sent out. But I had one plan to stop the circulation of those in our hands without altering the decree and without weakening public confidence in the government. That was to set the Ni-Jo-Jo (a building where the paper notes were stored) on fire and destroy the notes; and then I would kill myself. Thus the government could announce my conduct and could postpone the circulation without injuring the dignity of the administration."[3]

Thus the problem of the paper currency returned to its original status, by the opposition of the nobility and the soldier class. But the condition of affairs was so critical that Prince Iwakura said: "If no notes are issued, the soldiers on the battle field will starve." The opposition of the

[3] Mei-Ji-Sei-Shi, vol. i, p. 117.

anti-paper currency party was in the end unsuccessful and the government ordered Mr. Mioka to go on with his work and proceeded to enforce the law. Yet its opponents offered such stubborn resistance that in one instance General Saigo was obliged to go to Shimonoseki with an army in order to enforce the measure.[4] Only through difficulties and hindrances was the first paper money issued on May 25, 1868.

Now that we have considered how the first paper money was issued and what difficulties the government had faced, let us turn to the results of the issue and thereafter to the measures which the government adopted for the circulation of the notes. It is a difficult task to introduce a new institution but it is equally difficult, if not more so, to put the scheme into actual operation. When the plan of issuing paper currency was projected, the administration met with manifold difficulties owing partly to the ignorance and prejudices of some officers against the plan, and partly to the indefiniteness of the government's design. But when it became necessary to circulate the money among the people, the difficulties became more serious. Every merchant and tradesman refused to receive it. In fact, the money almost ceased to circulate at all. The causes which led to this general refusal were as follows:

First. As has been stated before, this being the first paper money ever issued by the central government, especially a newly organized government, the people regarded the measure with little confidence and with suspicion as to its credibility. This distrust of the government on the part of the people was the principal cause of the failure in circulation.

Second. At that time, the monetary system of the clan governments was grossly corrupt, and the central authority being busied with the improvement of its own administrative organs and with the efforts to suppress the rebellion in the North, was not able to effect reform. These clan-gov-

[4] Mei-Ji-Sei-Shi, vol. i, p. 117.

ernments changed their paper currencies frequently, destroying old and issuing new notes, whenever the change was beneficial to the treasury, without regard to the suffering and loss of the people. Through this arbitrary financial management, whenever such alteration took place, the people suffered great loss. Naturally they looked upon the central government's notes in the same light as the clan-notes, and had no confidence in the newly introduced medium of exchange.

Third. In addition to these general causes, there was a more specific and immediate cause, namely the indefiniteness of the redemption clause of the act of 1868. The act made no definite statement as to the limit of the issue and the method of redemption, other than the following: "such notes as are yearly repaid shall be destroyed in the Kai-Kei-Kyoku (Bureau of Treasury)."[5] Now, although it was stated that the object of issuing the paper money was to lay the foundation of national prosperity, yet the people knew that the real object was to make up the deficit of the public expenditure. It was clear that the money lent to the people might be redeemed at the end of thirteen years. But the people questioned how the government would manage the paper money issued for its own use.

These causes, together with other minor matters, brought the value of the paper money down to a minimum. The depreciation began literally with its issue. Merchants in cities refused to receive it at its face value, and the people in rural districts refused to take it at all. In consequence even in the three business centres of the country, Tokyo, Osaka and Kyoto, it was used only at sixty per cent discount.[6] In the provincial districts it did not circulate at all.

How the government faced such difficulties and overcame them is our next consideration. One of two measures the government was obliged to adopt; either to abandon the plan altogether or to enforce the act with power. No middle

[5] Cf., p. 15, above.

[6] Mei-Ji-Sei-Shi, vol. i, p. 203.

course was left. It was impossible to adopt the first course, on account of the critical condition of public finance, as has been repeatedly intimated. Hence resort was had to the second course. In order to remove the existing difficulties and prejudices, the government took various measures, now appealing to the patriotic sentiment of the people, again seeking to secure co-operation by words of threat and persuasion. But these failed in creating sufficient confidence in the minds of the people to cause them to accept the paper money as the government desired, and the value of the money continued to fall. The depreciation occasioned the formation of an "exchange-commission House," where the paper currency was exchanged for specie at a certain discount. This institution intensified popular dislike of the paper notes.

The government then resorted to more vigorous action, prohibiting "any person or persons from fixing any ratio of exchange of paper for specie" and ordering that "the violation of the law should be liable to punishment."[7] This measure, however, did not prevent the depreciation of the paper notes, but rather increased the people's distrust of the action of the government. The next step to open a way for the distrusted currency, was to create a demand for the paper money. This was done in the form of a proclamation that "all taxes shall be payable in the paper money concurrently with coin, in so far as is practicable."[8] A certain demand for the notes was created and their value rose somewhat, yet they circulated at twenty per cent discount. The second compulsory act was then adopted, providing that "any one who should refuse to circulate the paper money should be regarded as one who resists and denies the Imperial Order." But notwithstanding the enactment of this measure, the people refused to receive the paper money, and there were many who were charged with violation of the law and imprisoned.

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[7] Kempo-Rui-Hen, vol. ix, p. 26.
[8] Kempo-Rui-Hen, vol. ix, p. 26.

Thus, although the government exercised its power in various ways to secure the circulation of the government notes, the natural course of events could not be prevented, and the people's dislike for the paper notes became greater and the fall in value of paper money continued. This compelled the government to adopt an altogether different policy from what it had taken before. The former decree which had prohibited the fixing of a ratio between specie and paper was repealed and a new decree which permitted the use of the paper money according to its market value was now promulgated. With the announcement of this law, those who were imprisoned as the violators of the former decree were released. But this new act permitted different values in different parts of the country and there was no way to estimate accurately the income of the government. Therefore, the government issued a further decree which provided that "all the taxes and dues should be paid in the paper money as well as specie in the ratio of one hundred and tweny *rio* and one hundred *rio;* that the government would pay its outlay with the paper currency estimated at the average value of ten days in a month."[9] As soon as this decree was issued, the value of the paper money began to fluctuate so greatly that the government, before the measure was put into operation, was forced to amend the decree and to change the last clause, so as to read that "all government outlay and salaries would be paid in paper money in the ratio to specie stated, namely, one hundred and twenty of paper to one hundred of coin."[10] The people still, however, continued refusing to receive the money; all kinds of business fell into a state of stagnation; some of the wealthiest merchants closed their doors and many smaller houses were dragged down by their fall; the distrust took hold of the public mind and commercial credit was greatly injured.

In 1869, the government determined to bring the paper currency up to par, and in April of that year rescinded the

[9] Mei-Ji-Sei-Shi, vol. i, pp. 205-206. [10] Mei-Ji-Sei-Shi, vol. i, p. 206.

last decree and enacted that no difference between coin and paper money should be established, announcing furthermore that not only the violators of this law should be punished but also the head of the province of which the transgressor was a resident. The government also prohibited any exchange of paper money for coin except in cases where the exchange was an absolute necessity.

But the natural course of events could not be stopped and the tendency of the public will could not be checked merely by laws and edicts, if not rightly applied. Thus, when the government tried to raise the value of the paper money by prohibiting the establishment of any market discount, the value thereof fell; when it was ordered that the notes be circulated throughout the empire, they returned to the cities; again, when the paper money was ordered for use in daily transaction, it lost the quality which would make it the standard of value and consequently of adjustment of prices. Hence, in June, 1869, the government was forced to issue the decree making the paper currency redeemable in thirteen years, announcing that either it would be redeemed in coin by the end of 1882, or if that were not done, interest at the rate of six per cent would be allowed upon the whole amount in circulation.[11] It also announced its intention of abandoning the issue of large quantities of paper money which had been contemplated and of destroying the machinery that had been erected for that purpose, and further that any one found offering a discount upon paper money would be fined. The thirteen years during which the notes were to remain outstanding were shortened to five years [12] and the maximum amount was limited to the existing sum, 32,500,000 *rio*. Through these measures fixing the maximum amount and the term of redemption, a stable ratio of exchange of paper currency was established; but the dislike to its use still prevailed among the people of provincial districts. Consequently, all paper money returned to the cities and specie left

[11] Count Okuma's Review.
[12] Count Matsukata's Report of 1890, p. 315.

cities for the rural places, a scarcity of metallic money in cities resulted, general prices rose and the people in the cities fell into still greater distress. The government vainly attempted to level prices in the cities and provincial districts by distributing paper money according to the amount of the products of the farming people, and also by distributing coins which gathered in the country places among the city people.[23] These plans being unsuccessful, the government was forced to withdraw the paper money thus distributed.

In June, 1870, when the Rebellion was suppressed and the people began to know the policy of the government, the decree was issued that the prefectures should form an alliance to circulate the paper money. This was carried on very successfully and from this time on the way to the circulation of the paper money was gradually opened, until within a few months it circulated at par with specie.

Although these legislative measures may have had something to do with bringing the value of the currency to that point, yet there were two important causes by which the success was attained, namely, first, the increased confidence of the people in the government; second, the desperate condition of the currency system of the old régime.

1. The depreciation of the paper money was not caused by over-issue, but by the lack of confidence of the people in the government. Hence, when the civil war was over, when the social order was restored, and the people understood the plan and policy of the government, the confidence was increased and the notes began to circulate. Notwithstanding the fact that the issue of notes was greatly increased, yet the value rose not only to par with specie but specie was exchanged for paper at a discount.[24]

2. At the close of the Tokugawa régime, when the government was in distress for lack of funds, good coins were melted and recoined into an inferior money with alloys.

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[23] Kem-Po-Rui-Hen, vol. ix, p. 38.
[24] Count Matsukata's Financial Report of 1890, p. 22.

Thus the amount of currency was increased and its real value decreased. Moreover, when the central power of the Tokugawa government became weak, each separate feudal local government practiced this same process of recoinage. In this way, when the Restoration was established and the new government was formed, the currency system was grievously and excessively corrupted; all good coin was either stored in the treasuries of wealthy men and withdrawn from circulation, or exported to foreign countries, while the coin in circulation was debased money which had lost the quality permitting it to be a standard of value. The consequence was that coin of the same denomination came to have many different values according to the quantity of gold it contained.

In addition to these debased coins, there were so-called "clan-notes."[13] Soon after the Restoration, as well as before, the clans needed funds to accomplish certain internal reforms of clan government and over-issued the notes until they had no value. Although these notes were circulated only within each clan, yet the issue was universally adopted, and over-issue affected the trade of the whole country. Thus, the people suffered from various difficulties; in internal trade within a clan, they suffered from over-issue of the paper currency and, in external trade without the clan, from the circulation of the debased money. Thus the cry for a uniform correct system of currency came from all parts of the Empire. Just at that time, the Imperial government announced that the government notes would be exchanged for the good coin and a uniform monetary system would be established within a few years. Moreover, the government succeeded in reforming all corruptions and in assuring the public of the fidelity of the administration. With the confidence in the government, the credit of paper money was increased. Thus the depreciation of the clan notes and the debased coins of the old régime were turned to the benefit of the new government notes.

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[13] See Chap. III.

CHAPTER III

Kinds of the Paper Currency

When the Imperial government began its administration, the prevailing paper money was the so-called Hansatsu (clan notes), which had been in use since the seventeenth century. With the new administration, a new currency system was instituted, under which there was another issue of paper money. This new paper money was of six kinds, namely: 1. The Dai-Jo-Kwan-Satsu (Government Notes), 2. The Mim-Bu-Sho-Satsu (Civic Department Notes), 3. O-Kura-Sho-Dakkwan-Sho-Ken (Treasury Convertible Notes), 4. The Kai-Taku-Shi-Dakkwan-Sho-Ken (Colonial Department Convertible Notes), 5. Shin-Shi-He (New Paper Money), 6. Kai-Ryo-Shi-He (Improved Notes). These various notes will be described in succession.

Han-Satsu (Clan Notes).—In the period of the Kwam-Bun (1661-1673), Matsudaira Tada Masa, the Prince of Fukui, having suffered financial embarrassment, after proclaiming that the Tokugawa government had not fulfilled its promise to grant him additional territory, persuaded the Shogun to give permission for the issue of clan notes to be circulated within his territory. This was the origin of clan notes, which were circulated until the abolishment of Hans (clan notes) in 1872. In the Gen-Roku (1688-1704), many southwestern provinces following the Fukui experiment, and issued silver notes to a considerable extent.[1] Thereafter the feudal nobles who suffered from financial difficulties adopted this measure to relieve the provinces from embarrassment. Although the Tokugawa government

[1] The use of paper money was introduced from China where it had existed since the Dynasty of Kan. Mei-Ji-Sei-Shi, vol. i, p. 367.

objected strongly to surrendering the exclusive right of coinage, it was compelled to grant this right to a few *Daimyos*. Now to restore the right, "in 1707 (Hoyei IV), the government prohibited the further issue of all such money, in terms which seemed also to include even the continued circulation of what had been already put forth. In 1730 (Kyolu XV) it was found necessary to repeal this prohibition, in order to bolster up the price of rice. The permission applied to gold, silver and copper bills equally, and was to continue in the case of Daimyos of 200,000 kokū or more for twenty-five years, but in the case of those of smaller estates, for fifteen years only. In 1755, the license was restricted to silver bills only. Subsequent legislation merely declared the policy of refusing to grant it to daimiates other than those already possessing the privilege.[2] At the close of the Tokugawa government, many fiefs issued more paper money than the law allowed and some of the Daimyos issued notes without any permission at all.

These silver notes were of many denominations. In Fukui (Echizen), for instance, where the earliest issue of clan notes took place, the denominations were 1, 2, 3, 5, 10, 50 and 100 *momme*. It would seem that none of the issues were in name irredeemable, although the actual value of the notes was more or less affected by the pecuniary condition of the fief. Some of the more opulent Daimyos established at Osaka banks for the redemption of their issues and in consequence their notes had a large circulation outside their own fiefs. Various artifices were employed to induce the acceptance of the paper money. For instance, the Prince of Bizen ordered that for 100 *momme* of silver coin, 101 *momme* of notes would be given, while for 102 *momme* of notes, there would be given only 100 *momme* of silver. It will easily be understood that, from the scarcity of coined money under the old régime, the Daimyos in many cases

[2] Transactions of the Asiatic Society of Japan, vol. xx, supplement, p. 168.

felt themselves compelled to increase the currency circulation by issuing paper money. In other cases, the necessity arose of defending their own fiefs from the paper money of adjacent fiefs by following the example of their neighbors, and thus preventing a drain of their own coin. But there were many cases in which paper money was resorted to merely as a means of escape from pecuniary embarrassment which both the taxes and the official money-lenders were powerless to relieve.[3] At the time of the Restoration, the over-issue of the paper notes had reached its maximum and, consequently, the fall in the value of the notes was considerable, its exchange ratio being one-eighteenth of gold. Thus, the clan notes came to be of scarcely more value than waste paper. When the new government issued paper money the clan notes interfered greatly with its circulation. The two notes could not exist together, for as the circulation of one was extended, that of the other was necessarily contracted. When the Hans (clans) were abolished and the country was redivided into prefectures, the chief object of the government was the centralization of power. This included, of course, the right of coinage. But the existence of the clan notes was contrary to the centralization of government, for at that time there were in circulation many inconvertible currencies issued by the different authorities. Moreover, this was not only detrimental to the commerce and industry of the country, but it affected directly the finances of the government, because since the clan notes were legal tender, the government was obliged to accept them whenever presented for taxes, dues, etc., while the clan notes could not be used throughout the country, but only within certain feudal territories.

For these reasons, as early as 1870, the government directed its attention to the clan notes. At first, the government issued an order prohibiting the circulation of the notes

[3] Transactions of the Asiatic Society of Japan, vol. xx, supplement, p. 169.

issued without the permission of the Shogunate, and those issued after the Restoration. Secondly, all further issue of notes and bills similar to the clan notes was stopped and the manufacture of the paper used for the clan notes was brought under direct governmental inspection. Finally, the government attempted to exchange the clan notes for government notes. In the decree issued on July 14, 1871, we read, "currency should be of uniform nature, yet heretofore the different fiefs have issued various notes, and the system has thus become heterogeneous, while the exchange value of the notes has become extremely confusing. Now that the Hans are abolished, these notes should be exchanged for the government notes according to the exchange value of to-day."[4] Later on, it was ordered that "such plates as are used for printing the notes, and the unused material shall be taken by the authorities and be destroyed."[5]

At the close of the Tokugawa régime there were 244 Hans (clans), 14 Ken (Tokugawa's direct territory), 9 Hatamato (direct retainers of Tokugawa), whose issues of paper money were extant. The notes were of various kinds, and of different denominations; there were 1694 different kinds and the amount of circulation in the value of the coin, was 24,930,000 yen. At first, the government ordered the Hans to liquidate all the notes in circulation within each territory, but owing to the inability of the Hans to do so, the government was obliged to assume the liability for the entire amount. To accomplish this the government determined to exchange the clan notes for the "New Paper Money,"[6] thus unifying the currency system of the country. Two difficulties presented themselves in carrying out this measure: 1. The heterogeneous kinds of clan notes, and the existence of notes of small denominations; 2. The absence of any provision for the exchange of these notes. The government was accordingly forced to postpone the exchange and to permit the clan notes to continue in circulation.

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[4] Kem-Po-Rui-Hen, vol. iv, p. 25.
[5] Kem-Po-Rui-Hen, vol. iv, p. 34.
[6] See p. 39.

The abolishment of the Han and the establishment of prefectures, created confusion in regard to the boundaries of territory, since the old Han did not altogether correspond with the new prefecture, and consequently there was also confusion of the limits of the circulation of the clan notes, resulting in their depreciation. To overcome this difficulty, the government fixed a ratio between the clan notes and new currency on one hand and, on the other, it defined the boundary lines within which each clan note should be circulated. For example, where an old clan now came under the jurisdiction of more than one political division, according to the new system, the clan note could be circulated within the new political division, although it might be outside of the original clan jurisdiction. In order to raise the value of the notes, the banks were ordered to buy in the notes where they were the most depreciated, and the government, at the same time, undertook to cancel all the notes. Such notes as were received from the Hans, either for the reserves, or for the repayment of individual loans, or for taxes or dues, were destroyed. But the exchange of small notes of less than 5 sen (cent) was postponed until small coin could be issued.

In 1872 when the whole provision for the exchange of clan notes was made, the government began to exchange all the notes above five *sen* for the new currency (and the notes below that denomination in 1874). The redemption of the clan notes was completed in June, 1879. This conversion of the clan notes was one of the most important measures undertaken by the new government. It facilitated the free exchange of commodities and developed the national economy, extending the circulation of the government notes, increasing the confidence of the people in the government, and, finally, unifying the currency system of the Empire.

Dai-Jo-Kwan-Satsu (Government Notes).—The Imperial government issued its note in 1868 with the intention of continuing it in circulation for thirteen years, at the end of which time the issue was to be converted into coin. Later,

when the people began to discredit the notes and their value consequently fell, the term was shortened to five years. If the notes were not redeemed at that date, interest at the rate of 6 per cent was to be paid upon the whole amount in circulation. At the end of the fifth year, 1873, with the object of contracting the circulation, "Bonds in exchange for Kinsatau" (paper money) were issued, undertaking to pay 6 per cent interest on all amounts of paper currency which might be offered in exchange for these bonds. But as the credit of the paper currency was daily improving, while there was a general need for capital for carrying on business, there was very little demand for these bonds. The amount and denominations of the government notes issued from May, 1868, to December, 1869, were as follows:

Kinds.	Amount.
Rio 10 bill	Rio 23,032,000
Rio 5 bill	Rio 5,969,000
Rio 1 bill	Rio 15,485,000
Bu 1 bill	Rio 5,161,000
Shu 1 bill	Rio 1,050,000

Mim-Bu-Sho-Satsu (Civic Department Notes).—This form of currency was issued in accordance with the ordinance of September, 1869, by the Civic Department.[1] It was of small denominations, namely: two-Bu (50 sen), one-Bu (25-sen), two-Shu (12.5 sen), and one-Shu (6.25 sen). The full amount of the currency was not to exceed 7,500,000 *rio*.

These notes stood in the relation of subsidiary currency to the government notes; the decree describing the object of the issue, stated: "Owing to the fact that the existing currency consists only of paper notes of large denominations, the people of the remote towns and villages may suffer from inconvenience in the daily transaction of business. Hence,

[1] Afterwards the Civic Department was divided into the Departments of Finance, Interior and Justice.

the Bureau for Commerce will proceed to issue notes of smaller denominations, and the notes of larger denominations which are exchanged for the smaller shall be destroyed."[8]

The question arises, in view of the fact that both this currency and the government notes were issued by the same central government, why one was called "Government notes" and the other "Civic Department notes"? The answer is, that the government declared in May, 1868, that the "amount of the notes will be limited to 3,250,000 *rio*, and after that amount is reached, the plate used for the issue will be destroyed . . ." The government could not change the promise thus made to the public, but ordered the department in which the financial function of the government was exercised to issue these subsidiary notes in the name of the department. The total amount of notes issued of the various denominations was as follows:

Denominations.	Amount.
Two-Bu bill	3,683,000 rio
One-Bu bill	2,407,000 rio
Two-Shu bill	1,093,000 rio
One-Shu bill	315,000 rio

The issue began in September, 1869, and was completed in October, 1870; in October, 1880, with the government notes, it was exchanged for the "New Paper Money."

O-Kura-Sho-Dakkwan-Sho-Ken (Treasury Convertible Notes).—These notes were issued by the ordinance of October, 1871, in the name of the Mitsui Company.[9] The object

[8] Kem-Po-Rui-Hen, vol. ix, p. 40.

[9] The House of Mitsui was founded early in the 17th century in Kyoto by a man of that name coming from Echigo province in the West. Contradictory stories are told as to which member of the family first brought it into prominence by his energy and skill. Romance has colored its earlier days; but at any rate no long time elapsed before prosperity began to visit the house, and after one or two generations, its branches extended to all parts of the country, the chief stores being six in number, one for each branch of the family. The house had taken the name of "Echigo House;" and

of issuing these notes was twofold; primarily, to defray government expenditures, and secondarily, to buy in all the old coins which were floating in the country.

The year 1871 marks the abolition of the Han (clan) and the redivision of the country into prefectures; the administrative sphere was correspondingly extended, causing ordinary and extraordinary expenditures to be increased to 57,730,000 *rio*. On the other hand, owing to the fall in price of rice,[10] which constituted the principal source of the government revenue, the income from both ordinary and extraordinary sources, did not exceed 32,610,000 yen, leaving a deficit of 25,120,000 yen.

To make up this deficit two measures were considered: (a) the issue of more inconvertible notes, and the sale of the coins (Ni-bu-kin) which were deposited in the Treasury from time to time. Neither of these measures seemed practicable; for the former would be contrary to the decree announcing that no further issue would be made and the latter was undesirable at a time when the government was planning to establish a new coinage system. The value of specie fell very low and the people disliked to use the coin. Moreover, the government was gathering all the coin possible in order to prepare a basis for a future coinage, so that the sale of such coin as the government already possessed was not to be thought of. Hence another measure was sought. This scheme was to authorize a private commercial house to issue notes and to circulate them. The adoption of this scheme had two advantages: (a) the government could succeed in raising enough to meet the deficit; (b) a large quantity of specie could be collected with comparatively little expense.

It is to be noted that the Mitsui Company acted as a gov-

as early as the last decade of the 17th century its fame was such that Kaempfer was attracted by the extent of its commercial operations and made special mention of its achievments. Since the Restoration, this house has acted as a financial agent of the government.

[10] In 1871, the maximum price of rice was 4.32 yen per koku and the minimum price 1.81 yen.

ernment agent in issuing this currency.[11] Whenever the Treasury Department wanted money, the Company received its order accompanied by a reserve equal to one-half of the amount of notes to be issued. If exchange in specie were demanded and the demand were greater than the reserve received, the Company had the right to demand more of the government. Accounts of all transactions were subject to government inspection. In the case of destruction or loss of the measure either by fire or theft, the Company was responsible for the loss. All expenses incurred in issuing the notes were paid by the Company. For all this trouble and work, the Company was permitted to receive as compensation twenty per cent of the total issue, for their own use without reserve.

This compensation was clearly excessive. While the notes were in circulation, the Company had the right of using for their own benefit one-fifth of all issued. The notes being convertible, the Company was obliged to have some reserve, but so long as there was not much demand for redemption, it could use the government reserve, if need be, since there was no definite rule for the exchange for coin, nor for the circulation of certificates whereby the notes in the use of the government were distinguished from those of the Mitsui Company. Again, the expense of issuing the certificate was slight and, moreover, because of its privilege, the credit of the Company became very great and its profits extraordinary.

It was not long, however, before the government found out that the compensation of the Company was too much for the service rendered. In 1872, the government established the system of deposit for exchanging the notes. Since then, the contract with the Mitsui Company has been modified, and now, although it still has the use of one-fifth of the total notes issued, yet the Company is obliged to exchange one-fifth of all notes presented for redemption. After

[11] Mei-Ji-Sei-Shi, vol. i, p. 240.

five years, the Company was obliged to pay back twenty per cent of all the notes issued to the Treasury Department, and during that length of time the Company was required to deposit twenty per cent of the sum in specie, on which the government paid reasonable interest. In short, according to this new contract, the compensation of the Company was the privilege of borrowing money without interest for a security bearing interest.

The original intention of the government was to limit the amount of the notes to 3,000,000 yen; but as its financial difficulties were critical and the issue was intended to meet the deficit in public revenues, the government issued more than was originally intended. The amount of notes issued from October to December, 1871, reached 4,772,000 yen, and during January and February, 1872, 2,028,000 yen, making a total of 6,800,000 yen. Notwithstanding the enormous increase of the issue, their credit did not decline; for at the beginning of the issue the government promised to exchange notes for coins on demand and to destroy the notes redeemed. Moreover, since it was at a time when the old coin was unpopular, the people preferred the use of the paper money to that of specie. In issuing these convertible notes, the government was certainly successful. But subsequent policies caused the notes to fall into great disfavor, from the evil effect of which the country suffered for many years.

If the government had followed the plan originally stated, destroying the notes exchanged, the entire issue would have disappeared and the economic condition of the country would have been greatly bettered. But contrary to what was originally intended, when the notes redeemed reached one-fifth of the total issue (October, 1871, to March, 1872), the government, instead of destroying redeemed notes, returned them again to circulation. Again, when the amount of new coin reached 51,990,000 yen, the government could have accomplished the resumption of specie payments as originally intended. But instead of attempting this plan, it ex-

changed the notes for the "New Paper Money" which was itself inconvertible money. Thus, the paper money which was originally issued with the promise of convertibility lost that quality and was added to the enormous amount of inconvertible paper money already in circulation. All this mismanagement was based on the belief of the officials that as the notes could be circulated at par value with coin, whether convertible or inconvertible, conversion into coin upon demand was unnecessary.

Kai-Taku-Shi-Dakkwan-Sho-Ken Colonial Department Convertible Certificate).—This issue, as the one preceding, was emitted in accordance with the ordinance of May, 1871, by the Treasury Department in the name of the Mitsui Company.

The object of the issue was the promotion of the industry and commerce of the Northern Island (Hokkaido). The important question, how to open the "Island of the Barbarians," had been agitated from time immemorial. With the Restoration and the nationalization of the Empire, the need of settling this question was very keenly felt. This island, as the northern gate of the Empire, required a garrison for defense from northern invasion. Having a large population relative to its area, the government required all its arable land for cultivation, while experience proved that the island was covered with valuable natural treasure.[13] Accordingly, soon after the new government was organized, the question of the colonization of the Hokkaido was considered. It was a great undertaking, requiring large funds in order to attain any success. Owing to its financial embarrassment, the government could not appropriate any additional revenues for this purpose. In 1872, Gen. Kuroda, the head of the Colonial Department, with the consent of the Treasury Department, proposed to issue convertible certificates amounting to 2,500,000 yen, and the proposition was accepted by the Council of State.

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[13] Rein, Industries of Japan, p. 324.

The issue of these notes was similar to that of the Treasury notes, but with certain modifications. As the Colonial Department required the notes, they were issued by the Mitsui Company upon order of the Treasury Department, against a reserve equal to one-third of the amount issued. The time of circulation was to be ten years, during which term the Colonial Department was to prepare for redemption. If no steps were taken for this purpose, the Treasury Department was authorized to withhold such amount from the annual appropriation of the Colonial Department. All the expenses of issuing the certificates were to be borne by the Colonial Department. Both Treasury and Colonial certificates were, however, poorly manufactured, and were easily counterfeited. Hence the government decided to stop their circulation after May, 1877, and they were exchanged for the "New Paper Money."

Shin-Shi-Hei (New Paper Money).—The object of issuing this paper money was twofold; to prevent the circulation of counterfeit money and to unify the currency system. In 1870, when the paper money had begun to win the confidence of the people and the solid basis of the currency system was almost laid, the country was greatly alarmed by the appearance of numerous counterfeit bills of various kinds. This spurious money was emitted not only by natives, but also by Chinese counterfeiters. There had been many forgeries committed while the "clan governments" were still in power, but that was in a time of great confusion, when the centralization of power was not fully consummated, and the government could not take any strict measure against the offense. But now when the central government was fully recognized by the people throughout the country, the authorities determined to put an end to counterfeiting and all the evils connected therewith. Accordingly the government issued private instructions addressed to local authorities throughout the Empire as follows: "Notwithstanding the fact that the government had already made the announcement that it would convert paper money into specie, we are

surprised at the appearance of counterfeit bills. This forgery is a great evil which endangers the prosperity of the nation. Therefore, careful investigation should be made and those persons who have committed the forgery should be judged according to the law. Search for the spurious money, examine it with care, and if proved to be counterfeit, destroy it and report to the Civic Department concerning the matter. Manage the affair privately, for if the public know this fact, the people may refuse to receive paper notes, thus preventing again the circulation of any kind of paper currency."[13]

Soon after these instructions were issued, knowledge thereof became public. So the central government counselled the public to be on the watch for spurious money, and established examining offices at Tokyo, Osaka, Kobe and Yokahama, and afterwards at the seat of each prefectural government, in order to prevent the continued circulation of the counterfeit notes. Many persons were sentenced for participation in the forgery. The Chikuzen province was punished severely. Kuroda, the chiji,[14] head of the provincial government, was dismissed from office owing to some of his clan having been implicated in counterfeiting the paper money to a considerable extent in their province; five were condemned to death and four to ten years' penal servitude.[15]

The period of counterfeiting which at one time placed the country in a very dangerous position, but which was suppressed within a short time, directed the attention of the authorities to the fact that this was due to two defects

[13] Mei-Ji-Sei-Shi, vol. i, p. 320.
[14] The head of the local authority.
[15] F. O. Adams, History of Japan, vol. i, p. 255. Concerning foreign criminals, the government discovered that four subjects of the Chinese Empire, named Go-Kitsu-ho, So-sho-ho, Li-Shi-Kong and Chon-yie-Kyoku, were implicated in the forgery. The Chief of Police, Chin-fuku-kun, was notified and directed to punish them and to destroy the thirty plates of counterfeit money, and the head of the provincial government was requested to take some measure for prevention of future forgery.

in the existing paper money, namely, its imperfect manufacture rendering it easy to counterfeit, and the poor material of which it was made rendering it non-durable. These facts caused the government to consider a change in the existing paper money and the issue of a perfect currency, thus preventing any successful forgery in the future. Just at that time, a German establishment, Dondorf by name, located in Frankfort-on-the-Main, advised the government through Herr von Blank, German Minister to Japan, that the lithographed paper money issued by their establishment would never be forged, and that if a first order were placed with them, they would teach the art to Japanese artists. The Japanese government accepted the offer, and a contract for paper notes amounting to 5,000,000 yen was completed in October, 1871, and artists were sent in January to learn the art of lithography.[16]

A few months later the authorities found that in consequence of the strict measures adopted for the prevention of counterfeiting, the credit of the government notes was restored and the number of spurious notes was greatly diminished. Accordingly the officers in charge of the financial affairs of the government considered it unnecessary to redeem all the old notes immediately, but proceeded at once to call in the clan notes. This proposition was accepted by the Councillors of State, and the proclamation of December, 1871, was issued:

"Owing to the poor manufacture of paper money, there are many who have lawlessly attempted to counterfeit the government notes, and there are also gold, silver and copper bills in present circulation, which have been issued by divers clans. These elements create much inconvenience, as well as positive loss in the transaction of business. Therefore, although the government has been burdened with enormous outlay yearly, it has issued new paper money of excellent quality of the following denominations: 100 yen, 50 yen,

[16] History of Japanese Currency, vol. xv, p. 35.

20 yen, 10 yen, 5 yen, 2 yen, 1 yen, 50 sen, 20 sen, 10 sen, and 5 sen. Of these, 1 yen, 50 sen, 20 sen, and 10 sen will be issued and circulated from February 15, 1872. As soon as issued, all the old government notes and clan notes will be taken in exchange for them."[17]

In 1872, when the Han (clan) was changed into the Prefecture, the government determined to exchange all clan notes and placed a second order for 50,000,000 yen. Afterwards, the original lithographic plate was transferred from Germany to Japan and the reserve notes were issued at the "Paper Currency Bureau" to the amount of 3,537,000 yen.

After these two original objects were accomplished, the government sought to exchange all government notes and certificates. The various purposes for which these so-called "New German paper notes" were issued, are summarized in the following table:

Purpose of Issue.	Amount.
Conversion of old notes	52,897,000 yen
Conversion of clan notes	22,618,000 "
To defray colonial expenses	1,100,000 "
Conversion of Treasury certificates	6,784,000 "
Conversion of Colonial certificates	2,463,000 "
To cover deficit	8,525,000 "
To cover expenses of suppressing Rebellion of 1877	27,000,000 "
	121,387,000 yen

The first purpose of issue, conversion of old government notes, was to exchange Treasury and Colonial Department certificates for the new paper money.[18] It was argued that the issue of 100,000,000 yen had been ordered, although the total sum of government,[19] civic[20] and clan notes to be exchanged was not more than 85,000,000 yen; that there existed, therefore, an excess of 15,000 yen; that if this excess were devoted to the redemption of other outstanding notes amounting to 9,300,000 yen, Treasury notes of 6,800,000 yen and Colonial certificates of 2,500,000 yen, there would

[17] Kem-Po-Rui-Hen, vol. ix, p. 25.
[18] See p. 52. [19] See p. 42, above. [20] See p. 45, above.

then be no need of expending specie for their redemption. Inconvertible certificates were thus exchanged for convertible notes.

The use of paper money by the government was favored by the fact that the certificates when issued were received by the people very favorably and circulated extensively, very few notes being presented for redemption. Moreover, as notes of the smaller denominations circulated among the mountaineers and fishermen, the wear and tear was great and it seemed impossible that the amount which was originally intended for circulation would last ten years. In any event, as the island was gradually opened and the wilderness became a taxable area, it seemed no difficult task to redeem the notes with the coin paid in as taxes in the island. Hence, holding the sum of 1,800,000 yen, which was lent to the people of Hokkaido, as a reserve, the government issued additional notes to the amount of 1,100,000 yen.

In the year 1871, when the country was redivided, the public expenditure became very great, and the government suffered from financial embarrassment. Whenever a deficit occurred, the Bureau of Ways and Means would borrow temporarily from the Bureau of Currency to meet the deficiency, with the intention of repaying the amount when taxes were received. Now this seems very similar to the treasury certificate system. But, in the first case, there was a definite term within which the debt would be paid, usually not longer than a fiscal year, whereas the system adopted by the Japanese government provided no definite term for liquidation. The Minister of State for Finance simply became a debtor of the Bureau of Currency, and a creditor of the Bureau for Revenue; the liability of debtor and the right of creditor rested upon one person, and there was no specific obligation to pay at all. This mode of transaction was resorted to nine times during the five months from October, 1872, to February, 1873, and the amount thus borrowed was 8,000,000 yen. In 1874, this debt was converted into the "new paper notes."

At the beginning of the new era of the Meiji, the government adopted the policy of interference in commerce and industry. It went so far in this direction that it was said that the government monopolized all the industries of the country. This policy cost the government 500,000 yen, which necessitated another issue of paper money.

In 1877, when the country had entered upon its prosperous career, the development of national life was suddenly checked by a civil war, which left the country in a serious condition. To meet the enormous expenditure incident to the war, the government having no other source from which it could draw, circulated paper notes to the value of 27,000,000 yen from the reserve currency which was to be used for exchanging "worn-out paper notes." In the same year it was decreed that this reserve currency should circulate for fifteen years, and at the end of that period be exchanged for bonds.

Kai-Ryo-Shi-Hei (Improved Paper Money).—The new paper money which was claimed to be perfect in manufacture was found, a few years after it was circulated, to be imperfect in three particulars: (1) As the notes of all denominations were of the same size, differing only in the figure which indicated the denomination, it was very difficult to distinguish one denomination from the other. (2) Owing to the character of the paper, the color used in the lithographic print was not absorbed sufficiently to prevent it from being changed very easily. (3) Owing to the poor texture of the paper, the notes were easily torn and were soon worn out. It is reported that 100,000 yen worth of notes were brought to be exchanged in one month.

For these reasons, the government ordered the Financial Department to issue another note known as the "Improved Paper Money," which should remedy these defective qualities in the "New Paper Money."

CHAPTER IV

Redemption of Paper Currency

Although all the notes described in the preceding chapters are included under the name of "Government Notes," yet in regard to their characteristics and their objects, the various issues may be divided into the two following classes:

A. Those issued for meeting a temporary deficit, because of the excess of expenditures over the revenues of the government; but forming no addition to the permanent debt of the government.

B. Those issued for defraying the government expenditure and destined to become a permanent debt of the government.

It is not unusual in financial administration for the expenditure and revenue to be unequal; sometimes the former is greater than the latter; while at other times the reverse is the case. "Temporary deficits and surpluses cannot be avoided. In the management of a large financial organization complete equalization of receipts and expenditure could hardly ever be obtained, or, if it were, would be due to chance."[1] Hence governments usually provide some method of borrowing which may be utilized in case of temporary inequality between expenditure and revenue. The Japanese government having no central banks, adopted the system of "reserve paper notes," considering that "this method is better than issuing a loan, for by it, the government is free from paying interest and free also from the trouble of collecting the loans." But in 1877 and the four years following, a succession of events necessitated a large amount of extraordinary expenditure and the government was forced to issue an ex-

[1] C. F. Bastable's Public Finance, p. 535.

cessive quantity of notes. Consequently, at the end of 1881, the depreciation of the paper notes was so great that the government was compelled to undertake their reform.[3]

This important work was left to the ministry of Count Matsukata. Soon after entering upon his office, the Count found that the "reserve notes" in circulation amounted to 10,430,000 yen.[3] He took measures for the redemption of the "reserve notes," and in order to accomplish his plan carried out the following reforms:

1. In the first place, he remodelled the method of receiving revenue and of defraying expenditure. Hitherto it had been the custom to keep the taxes paid by the people in the treasury of the local authorities for some months before transmitting to the central government. On the other hand, financial regulations required the Financial Department to pay in advance one-twelfth of the appropriation for the different departments of the central government, and one-fourth of that for the provincial government.[4] Thus some reserve was rendered necessary.

Count Matsukata changed the system so that the surplus of one province could be used to cancel the deficit of another. He ordered all the local governments to report to the Financial Department every other day, by telegraph, the amount of money in their local treasuries. Thus he was enabled to use a surplus existing in one part of the Empire to balance a deficit in another.

2. Count Matsukata endeavored also to replace the "reserve notes" with specie. The larger part of the reserve was in the form of loans and government bonds, and only the sum of 8,000,000 yen was held in specie to effect the conversion of the bills. Hence he resolved to augment the amount of specie. To accomplish this, he sold the bonds and arranged for the payment of all loans so that the reserve consisted entirely of specie. When the government should

[3] Report of the Minister of Finance, p. 73.
[3] Count Matsukata's Report of 1890, p. 75.
[4] Ministers' Report, p. 10.

have a deficit, the coin reserve was to be used instead of the old paper notes.

3. The third measure taken was the diversion of the specie paid in for building the Middle Provincial Railroad to the temporary needs of the government. In 1883, it was determined to lay a railroad joining the two capitals, Tokyo and Kyoto, through the Middle Provinces. Bonds were offered for sale in the same year and a large amount of specie was thus brought into the central treasury. The government was able to use this sum for tiding over the temporary emergency until the carrying out of the project demanded the money. Through these measures, all the notes of Class A were converted into specie in 1883.[5]

For the reasons mentioned in the preceding chapters, the amount of inconvertible notes, in new paper money, reached in 1878 the following enormous figures:

Amount issued for the conversion of old government notes and bills	61,367,000 yen
Amount issued for the conversion of clan notes	22,908,000 "
Amount issued for meeting general deficiency	8,525,000 "
Amount used for the expenses of the Insurrection	27,000,000 "
Total	119,800,000[6]

We shall now consider how the government managed this enormous amount of inconvertible notes. In 1873, when it was decreed that the old notes should be exchanged for the new coins and that if all were not so exchanged, six per cent interest should be paid on those continuing in circulation, the government attempted the fulfilment of these promises and took several measures for the redemption of the paper notes.[7]

The first of these was the issue of the "Bond in exchange for Paper Money," and the second, the establishment of

[5] Count Matsukata's Report of 1890, p. 78.
[6] See Compendium of the Japanese Finance, vol. ii, p. 240.
[7] Cf., p. 30.

national banks with the right to issue convertible certificates. According to these regulations, national banks were established, each of which should have a capital of at least 50,000 yen. Six-tenths of the capital was to be deposited in paper money at the Financial Department and the remaining four-tenths was to be held in specie as a reserve for the redemption of the bank's notes. Then the Financial Department issued "Bonds in exchange for the Notes," bearing interest at the rate of six per cent per annum payable in gold, which the banks were required to retain as security for the note issue. The amount of the notes could not exceed the security possessed by the bank. Concerning the advantages of issuing the "Bonds in exchange for Paper Notes," Count Okuma says, "This plan has two advantages; in the first place, when the rate of interest falls below six per cent in gold, owing to an excess of paper money in circulation, the holder will be at liberty to exchange them for public bonds, while the government would be enabled to withdraw enough paper money to maintain the circulation at an amount suitable to the requirements of the country; and in the second place, when the paper currency falls below par, the holder will be able to obtain bonds, the interest of which will be payable in specie."[8]

These were really the first steps taken by the government towards the redemption of the paper currency, but the pressing necessity for the conversion of "clan notes" and the outbreak of the Kiushu Insurrection compelled the government to issue additional notes to the amount of something over 31,000,000 yen and thus abandon the plans for redemption.

During the five years from 1874 to 1879 the government notes in circulation increased to a considerable amount. In the early part of the period, as there was only a limited issue of the notes, they circulated at par with specie,[9] but,

[8] Okuma's Review, p. 14.

[9] Of course, silver being the only money used in Japan's foreign trade, there were fluctuations in the value of silver according to the shifting relation of imports to exports.

later, owing to the inconvertible character of the notes and to their over-issue after 1877, they began to fall in value. For a time the result disturbed the internal as well as the foreign trade.

The first effect of the depreciation was the excess of imports over exports, and the second was the outflow of the monetary metals. Both of these results are shown in the following tables:[10]

TABLE I.

EXPORTS AND IMPORTS OF COMMODITIES.

Year	Imports	Exports	Excess of Imports	Excess of Exports
	yen	yen	yen	yen
1872	26,174,000	7,026,000	9,148,000	.....
1873	28,107,009	21,635,000	6,471,000	.....
1874	23,461,000	19,317,000	4,144,000	.....
1875	29,975,000	18,611,000	11,364,000	.....
1876[11]	23,964,000	27,711,000	.....	3,746,000
1877	27,420,000	23,348,000	4,072,000	.....

TABLE II.

IMPORTS AND EXPORTS OF PRECIOUS METAL.

Year	Imports	Exports	Excess of Imports	Excess of Exports
	yen	yen	yen	yen
1872	3,691,000	4,480,000	.....	789,000
1873	3,080,000	5,122,000	.....	2,042,000
1874	1,071,000	13,995,000	.....	12,923,000
1875	298,000	14,663,000	.....	14,365,000
1876	8,267,000	10,675,000	.....	2,408,000
1877	2,173,000	9,441,000	.....	7,267,000

Notwithstanding these clear evidences of the effects which we have ascribed to the over-issue of the paper notes, most of the financiers of the time attributed this alarming inequality between imports and exports to the scarcity of capital and sought a remedy in the issue of more bank notes. With this end in view revision was made of the Bank Regulation by which more inconvertible bank notes were issued. The government required the banks to deposit in the Financial Department government bonds bearing four per cent interest to the amount of eight-tenths of its capital, leaving

[10] Count Matsuka's Report of 1890, p. 85.

[11] The excess of imports in the year 1876 was due to the failure of the silk crop in the European countries, and the consequent increased exports of silk from Japan.

only two-tenths of the capital in specie. Upon the basis of this specie the bank was allowed to issue notes to the amount of the deposited bonds. This measure indicates that the government had at that time abandoned entirely its first idea of redeeming the inconvertible notes, by allowing the exchange of bank notes for government notes, which were themselves inconvertible. Thus, during three or four years, there were added to the amount of inconvertible paper money already in existence over 100,000,000 yen.[12]

An incidental factor in the adoption of this measure was the commutation at this time of the hereditary pension of the military classes into "Public Debt Bonds." "This class beyond the functions which had appertained to it under the regimé that had passed away, was ignorant of the ordinary means of gaining a livelihood, and now being suddenly relieved from those functions, was in great danger of falling into a state of indigence and perhaps into pauperism, unless some calling could be found for its members. The government consequently sought a means by which the military class could turn their "Public Debt Bonds" to account in obtaining a livelihood."[13] These circumstances, the demand for more capital, and the relief of the military class led the government to revise the Bank Regulations and to issue the additional inconvertible notes.

The results of this measure were felt in the finances of the country soon after the revision took place in 1878. There ensued further depreciation of the paper money, an excess of imports over exports, an efflux of silver and gold, and a rise of general prices. These phenomena are shown in the following tables:

TABLE I.

AMOUNT OF PAPER NOTES IN CIRCULATION

Year	Class A yen	Class B yen	Bank Notes yen	Total yen
1877	11,961,000	93,835,000	13,352,000	119,149,000
1878	19,618,000	119,800,000	26,279,000	165,697,000
1879	16,118,000	114,190,000	34,046,000	164,354,000
1880	16,528,000	108,412,000	34,426,000	159,366,000
1881	13,000,000	105,905,000	34,396,000	153,302,000

[12] See the Compendium of the Japanese Finance.
[13] Count Okuma's "Review," p. 29.

TABLE II.

DEPRECIATION OF THE PAPER NOTES IN COMPARISON WITH SILVER. (PRIOR TO SEPTEMBER, 1879, IN THE MEXICAN DOLLAR COIN AND THEREAFTER IN JAPANESE YEN COIN).

Year	Jan. yen	Feb. yen	Mar. yen	Apr. yen	May yen	June yen	July yen	Aug. yen	Sept. yen	Oct. yen	Nov. yen	Dec. yen	Aver. yen
1877	1,013	1,037	1,026	1,034	1,015	1,024	1,034	1,052	1,053	1,043	1,037	1,030	1,033
1878	1,049	1,075	1,105	1,076	1,066	1,068	1,068	1,078	1,110	1,143	1,131	1,217	1,099
1879	1,217	1,246	1,261	1,247	1,161	1,102	1,121	1,172	1,158	1,233	1,286	1,336	1,212
1880	1,365	1,389	1,435	1,549	1,373	1,367	1,378	1,387	1,489	1,651	1,686	1,659	1,477
1881	1,728	1,746	1,774	1,795	1,620	1,625	1,628	1,629	1,690	1,734	1,692	1,695	1,696

TABLE III.

IMPORTS AND EXPORTS.

Year	Imports yen	Exports yen	Excess of Imports yen
1877	27,420,000	23,348,000	4,072,000
1878	32,874,000	25,988,000	6,886,000
1879	32,953,000	28,175,000	4,777,000
1880	36,626,000	28,395,000	8,231,000
1881	31,191,000	31,058,000	132,000

TABLE IV.

EXPORTS AND IMPORTS OF THE PRECIOUS METALS.

Year	Imports yen	Exports yen	Excess of Exports yen
1877	2,173,000	9,441,000	7,267,000
1878	2,189,000	8,328,000	6,139,000
1879	3,134,000	12,778,000	9,644,000
1880	3,638,000	13,222,000	9,584,000
1881	1,856,000	7,490,000	5,634,000

TABLE V.

PRICE OF RICE[14]

Year	Maximum yen	Minimum yen	Average yen
1877	5,67	4,63	5,15
1878	7,03	5,37	6,20
1879	9,37	7,05	8,21
1880	12,11	8,15	10,13
1881	11,53	9,44	10,48

As shown by the above tables, depreciation of the paper money caused by the over-issue began in 1877. At the beginning of the year 1874, silver money brought 7 or 8 sen

[14] The price of rice is selected because of its universal use throughout the country; the price given is that per *koku* in the Tokyo market.

premium, and at the end of the year the paper depreciated and the difference between paper and silver was 22 sen. This phenomenon called the attention of the financiers to the importance and necessity of some action. They failed, however, to see the real cause of the premium. They thought the depreciation of the paper due to the appreciation of silver; that the appreciation of the metal was caused by the unfavorable balance in the foreign trade, and that this, in turn, was owing to scarcity of capital which hindered industrial enterprises. Hence, the measures adopted by the government were not intended to contract the inconvertible notes but rather to prevent the appreciation of silver money.

In 1879 the premium on silver went up as high as 25 per cent. In order to stop the appreciation of silver, the government authorized two banks at Tokyo, Mitsui and Second National Banks, to sell silver to the amount of 2,400,000 yen from the Reserve fund.[15] This measure caused silver to depreciate slightly; it had been at 16 sen premium, but now fell to 12 sen. When the sale stopped silver went up again to 23 sen, then to 33 sen, and in 1880 it rose as high as 54 sen premium. In that year, the government ordered three banks (First, Second and Mitsui) to sell silver to the amount of about 6,000,000 yen.

Silver, as a result, fell down to 37 sen premium, but in the autumn of the same year it went up to 48 sen. Having thus failed in all its attempts to prevent the appreciation of silver, the government abandoned the plan of selling silver and determined to accomplish its purpose by the more direct method of contracting the paper currency.

Two measures looking to this end were immediately adopted: 1. An increase in the tax on liquor. 2. A reduction in the outlay of the government. By the first measure the Financial Department was able to add 6,000,000 yen and by the second 3,500,000 to the reserve which was intended for the redemption of the paper currency.

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[15] Mei-Ji-Sei-Shi, vol. ii, p. 234.

But the appreciation of silver did not stop and in 1881 silver was at 79 sen premium, the maximum limit of the appreciation. The effect of the premium upon industry and commerce was alarming. The revenue of the government decreased to one-half its nominal value; many of those whose livelihood depended upon salaries and pensions were reduced to want. The rate of interest rose and the government bonds fell in value. All commodities rose in price, and the effect of the high price of rice was especially severe upon the common people, as it is the chief product and the staple food of the Japanese people. The farmers alone are supposed to have been benefited by the appreciation of silver. "In the year 1881," says Hon. T. R. Jennigan, the United States consul at Osaka, "nearly every thing in Japan had greatly risen in price, and as the great majority of the people considered only price and not value, and ignored the wholly fictitious nature of the advance, it is not surprising that they imagined it both solid and likely to endure, and thought themselves very prosperous and quite justified in launching into much extravagant expenditure. Accordingly, new farm houses sprang up in every province; new clothes and ornaments were freely purchased, landed property came in great demand . . . and in general everybody rejoiced in hope and a sense of prosperity."[10]

Before long, the government awoke to the danger and renewed its efforts to diminish the note circulation. This important matter was left to the ministry of Count Matsukata.

In October, 1881, Count Matsukata was appointed Minister of State for Finance and immediately undertook to contract the currency. The first step he took was to segregate as large a specie reserve as possible. With this in view, Count Matsukata ascertained how much specie the government could devote to the purpose. In his report on the result of this investigation, he says, "We have an average

[10] U. S. Consular Reports, vol. xix, No. 68, p. 655.

annual surplus of revenue amounting to 7,000,000 yen, and a reserve already made, amounting to 36,438,000 yen, making a total 43,438,000 yen which we can use for the management of the paper currency." "If," he continues, "we manage our annual income and reserve properly, before many years pass we can accomplish the redemption of all inconvertible notes."[17] From this time on, the government on the one hand contracted the paper notes and on the other, increased the reserve, with the intention, ultimately, of changing the irredeemable paper notes into convertible certificates. To accomplish this aim, the government, on the advice of Count Matsukata, on October 10, 1882, established the "Central Bank of Japan."

The object of the establishment of the Bank of Japan is described in the memoir of Count Matsukata. He says, "The existing banks (260 in number, including all branch offices) scattered over the country have no business connection with each other; and the feudal barrier still separates one bank from another. Consequently, specie to the value of 50,000 yen cannot be utilized, and thus there is no way for extending the credit of the banks. Hence, although the amount of bank notes issued reaches the enormous sum of over 34,000,000 yen, yet the country has been feeling the insufficiency of the medium of exchange.

"If this were the age of feudalism such an institution might have been of some service to society. But, fortunately, that age has passed and gone. By this time the central government has been formed and all the provincial governments have been established, bearing a definite relation to the central government. But sad to say, the banking system, which is the most important factor of the financial welfare of the country, is not in accord with the centralization of the government.

"Accordingly, in order to save the country from an unbalanced situation in its political and financial system, there

[17] Count Matsukata's Report of 1890, p. 123.

is left but one measure, that is, the establishment of the 'Central Bank of Japan.' The circulation of the currency is like the circulation of the blood, and what keeps up the circulation is the heart. The central bank is the heart of the currency circulation of a country, without which the finances of the country cannot be successfully administered." [18]

This memoir was accepted unanimously by the members of the Cabinet, and the "Regulation of the Bank of Japan" was proclaimed June 27, 1882. The "Regulation" may be summed up as follows:

1. The object of the Bank shall be: (a) To make the flow of currency in circulation easy and undisturbed. (b) To render service to the government as a financial agent in international trade. (c) To aid the government in its ordinary financial operations. (d) To monopolize the power of issuing certificates.

2. Its term of business shall be thirty years.

3. The capital of the Bank shall be 10,000,000 yen.

4. One-fifth of the authorized capital shall be paid in before the Bank may open business and the remainder at the convenience of the stockholders.

5. The business of the Bank shall not be restricted, unless it tends to unjust and disastrous speculation, in which case measures will be taken.

6. If the government sees fit, the Bank may be entrusted with the management of the financial affairs of the government.

7. The Bank has the right to issue convertible certificates, but at present it shall not exercise this right.[19]

8. The President of the Bank shall be a person of the First Rank and the Vice-President, one of the Second Rank.

9. The Minister of Finance shall appoint an official who shall inspect the business of the Bank.

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[18] Count Matsukata's Memorial, dated March 1, 1882.

[19] This clause was added on account of the great depreciation of the paper currency.

10. The President shall present to the Minister of Finance monthly a report of the condition of the Bank.

11. The government shall invest capital amounting to one-half of the whole capital of the Bank in the stock of the Bank.

Meanwhile, the government endeavored to increase the central specie reserve through economy and the introduction of business methods, until, in 1885, it aggregated 2,806,000 yen. In May of the same year, by the act proposed by Count Matsukata, the "Bank of Japan" was authorized to issue certificates amounting to 2,645,000 yen.

Finally, in June, 1885, the government issued the following proclamation:

"The government paper notes (inconvertible) shall gradually be exchanged for silver coin, beginning in June, 1886, and those redeemed shall be cancelled. The method of making the exchange fixed by the Minister of Finance and the management thereof shall be entrusted to the 'Bank of Japan.'"

Conversion began on the date fixed by the decree, and owing to the general tranquillity during the four years following, combined with the industrial development and commercial prosperity of the realm, the measure was carried to a successful termination. The amount of the specie, bonds and certificates held against the inconvertible notes in 1890 is shown in the following table:

Credit	yen	Debit	yen
Certificates	77,615,000	Government Notes	40,065,000
Specie	54,976,000	Bank and National	26,391,000
Bonds	22,659,000		
Total	155,230,000	Total	66,456,000

The next step taken by the government in the redemption of the inconvertible notes was the reform of the bank note circulation.

The first bank notes were issued in accordance with the Bank Regulation of 1873, and they were convertible certifi-

cates.[20] But in 1875 and 1876, when the balance of foreign trade was unfavorable to Japan, and, consequently, the outflow of specie was greatly enhanced, gold appreciated and there were many demands for the conversion of the paper. It became evident that if the banks continued to redeem the notes as originally planned, not only would such a course be destructive to the banks, but it would also facilitate the outflow of specie. Therefore, four banks of Tokyo appealed to the government to modify the law. Although the authorities were aware that evil effects would follow an over-issue of inconvertible bank notes, yet on account of the need for funds to meet the heavy government expenditures caused largely by the commutation of the hereditary pensions of the military class into a public charge, it seemed necessary to grant the banks the power of issuing inconvertible notes.[21]

For these reasons, a revision of the Regulation was made in 1876, and the bank notes, instead of being converted into specie, were redeemed with inconvertible government notes. The distinguishing quality of the bank note—its convertibility—was thus lost. In 1883, therefore (after the establishment of the Bank of Japan), the government began to consider the reform of the bank note circulation. Two methods were recommended to the government for accomplishing its purpose:

1. It was suggested that all the bank notes be made a liability of the Bank of Japan. As to this method, Count Matsukata said, "If the Bank of Japan had to-day enough financial strength to be able to issue convertible notes, such a method might indeed be adopted. But unfortunately such is not yet the case."[22]

2. Another plan considered was to permit the banks to continue as before during the term of years prescribed in the Regulation, and at the end of the period to require the banks to redeem all their notes. To this also Count Matsu-

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[20] Cf., p. 90.
[21] See p. 80.
[22] Count Matsukata's Report of 1890, p. 240.

kata objected on the ground that if, at the end of their term of 20 years, all of the 140 banks sold their bonds at once, a disastrous effect would be produced on the economic affairs of the country.

3. Count Matsukata proposed that all the reserves of the national banks should be transferred to the Bank of Japan and that each national bank should deposit out of its annual profits an amount of money equal to two and one-half per cent of the amount of its notes in circulation. With these funds—reserves and annual payments—the Bank of Japan should buy bonds, the interest on which should also be devoted to the redemption of the bank notes. At the end of 15 years, if there should still remain any unredeemed notes, a portion of the bonds should be sold and used for the redemption of the outstanding notes. This policy was adopted in May, 1883.

Entering upon a policy of contraction in 1882, the government firmly persisted in its measures. At the end of 1884, the paper money was nearly at par, and by 1886 paper and silver were entirely interchangeable. But this wholesome end was not and could not be thus rapidly attained without great disturbance in all other business. "The prices, of course, fell as precipitately as they had risen; with the fall in prices, distress and desolation extended over the land, and millions of people who had supposed themselves on the high road to wealth suddenly found poverty staring them in the face, while exacting creditors on all sides demanded the liquidation of debts."[23]

But necessity forced many to exertion and with a return to frugality and diligence, production and trade were gradually revived and prosperity returned. At the end of the annual report of 1890, Count Matsukata happily states that, "If we look back upon the financial condition of the country at the time when the government notes fell in value to their lowest point and see the consequent evil effects upon indus-

[23] The U. S. Consular Report, vol. xix, No. 68, p. 654.

try and commerce, we are conscious of the sense of fear and anxiety felt at that time. But what glory to the country and what blessing to the people! Through the wise management and ardent zeal of the cabinet, step after step, year after year, the measure has advanced and now all the provisions for the redemption of the notes are completed."